SaskTel

*Financial Statements of*

# SASKATCHEWAN TELECOMMUNICATIONS

*December 31, 2010*

## Saskatchewan Telecommunications

## Adoption of International Financial Reporting Standards

Canadian public companies including Government Business Enterprises (GBEs) will be required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), for fiscal years beginning on or after January 1, 2011. Effective January 1, 2011, Saskatchewan Telecommunications (the Corporation), as a GBE, will adopt IFRS as the basis for preparing consolidated financial statements. The Corporation will also provide comparative data on an IFRS basis, including an opening balance sheet as at the date of transition, January 1, 2010.

The Corporation has substantially finalized an IFRS conversion project including selection of accounting policies and financial statement presentation formats and determination of the most significant impacts of IFRS on processes, systems, internal controls over financial reporting and disclosures, and future financial position and results of operations. As part of the IFRS implementation, the Corporation has made changes to certain processes and systems to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes.

The Corporation has provided preliminary draft reconciliations which present the differences between Canadian Generally Accepted Accounting Principles (Canadian GAAP) and IFRS for the opening statement of financial position as at January 1, 2010, the impact on the Province of Saskatchewan's equity as at the date of transition, the statement of financial position as at December 31, 2010, net income and comprehensive income for the year ended December 31, 2010, and estimated impacts on Key Performance Indicators. While these reconciliations do not represent an official adoption of IFRS, they provide an indication of the major differences identified to date, relative to the Corporation's historical financial statements. The possibility exists that the information provided may require adjustment before constituting the comparative information in the first complete set of 2011 IFRS financial statements prepared in accordance with IFRS, because of revisions or changes to standards or interpretations on the application of a particular IFRS, or voluntary changes to IFRS 1: "First Time Adoption of Financial Reporting Standards" exemptions (mandatory exceptions and optional exemptions) or policies as selected by the Corporation.

**Reconciliation of consolidated Statement of Financial Position at January 1, 2010**
Thousands of dollars including notes

| | | | IFRS Adjustments | | |
|---|---|---|---|---|---|
| | Note | Canadian GAAP | Mandatory | Elective | IFRS |
| Assets | | | | | |
| Current assets | | $111,646 | $- | $- | $111,646 |
| Capital assets | 1,2,3 | 989,249 | (17,956) | 23,031 | 994,324 |
| Other assets | 4 | 163,562 | - | (108,145) | 55,417 |
| | | $1,264,457 | $(17,956) | $(85,114) | $1,161,387 |
| Liabilities and Province's equity | | | | | |
| Current liabilities | 4 | $256,090 | $- | $(15,023) | $241,067 |
| Long-term debt | | 160,790 | - | - | 160,790 |
| Other long-term liabilities | 4 | 246,234 | - | 100,388 | 346,622 |
| Province of Saskatchewan's equity | | 601,343 | (17,956) | (170,479) | 412,908 |
| | | $1,264,457 | (17,956) | $(85,114) | $1,161,387 |

1. Under IFRS only directly attributable costs are capitalized to an item of property plant and equipment. Under Canadian GAAP, the Corporation capitalized overheads attributable to construction and development activities, including general and administrative overhead costs. Removal of general and administrative overhead costs from property, plant and equipment resulted in a reduction of capital assets and retained earnings of $44,518.

## Adoption of International Financial Reporting Standards

2. Previously the Corporation had not capitalized borrowing costs. Under IFRS, the Corporation is required to capitalize borrowing costs on qualifying assets resulting in an increase to capital assets and retained earnings of $26,562.

3. The Corporation has elected to use fair value as deemed cost for certain items of property, plant and equipment. On transition, the Corporation increased the carrying amount of capital assets and retained earnings by $23,031.

4. The Corporation has elected to recognize actuarial gains and losses in retained earnings upon transition to IFRS. Other assets have decreased by $108,145, current liabilities have decreased by $15,023, other liabilities have increased by $100,388 and retained earnings has decreased by $193,510.

**Impact on Province of Saskatchewan's equity:**
Thousands of dollars

| | Note reference above | January 1, 2010 |
|---|---|---|
| Province's equity under Canadian GAAP | | $601,343 |
| Employee benefits expenses | 4 | (193,510) |
| Directly attributable costs | 1 | (44,518) |
| Borrowing costs | 2 | 26,562 |
| Deemed cost | 3 | 23,031 |
| Province's equity under IFRS | | $412,908 |

**Reconciliation of consolidated Statement of Comprehensive Income for the year ended December 31, 2010**
Thousands of dollars including notes

| | | | IFRS Adjustments | | | |
|---|---|---|---|---|---|---|
| | Note | Canadian GAAP | Mandatory | Elective | Other[2] | IFRS |
| Revenues | 1 | $1,043,675 | $1,149 | $- | $- | $1,044,824 |
| Other income | 3,7 | | (2,486) | - | 8,909 | 6,423 |
| Total revenue | | 1,043,675 | (1,337) | - | 8,909 | 1,051,247 |
| Expenses | | | | | | |
| Operations | | 759,372 | - | - | (759,372) | - |
| Goods and services purchased | 3 | | 8,673 | 1,638 | 459,514 | 469,825 |
| Salaries, wages and benefits | 4 | | - | 7,070 | 316,901 | 323,971 |
| Depreciation and amortization | 6 | 148,782 | (2,269) | - | - | 146,513 |
| Internal labour capitalized | | | - | - | (17,043) | (17,043) |
| | | 908,154 | 6,404 | 8,708 | - | 923,266 |
| | | 135,521 | (7,741) | (8,708) | 8,909 | 127,981 |
| Other items | | 9,851 | - | - | (9,851) | - |
| Interest and related items | | (16,783) | - | - | 16,783 | - |
| Net finance expense | 5 | | 11,032 | - | (15,841) | (4,809) |
| Net earnings | | 128,589 | 3,291 | (8,708) | - | 123,172 |
| Other comprehensive income (loss) | | | | | | |
| Defined benefit plan actuarial gains (losses) | 8 | - | - | (43,021) | - | (43,021) |
| Total comprehensive income | | $128,589 | $3,291 | $(51,729) | - | $80,151 |

## Saskatchewan Telecommunications

## Adoption of International Financial Reporting Standards

1. Under IFRS most customer contributions received by the Corporation are required to be recorded as revenue. Under Canadian GAAP these contributions were applied to the property, plant and equipment related to the service provision. The result is an increase to revenue of $1,149.

2. IFRS requires that expenses be classified either by nature or by function for presentation. The Corporation has selected classification by nature. In addition, other reclassifications were required to conform to disclosure requirements for other income and net finance expense.

3. Under IFRS, only directly attributable costs are capitalized to an item of property plant and equipment. Under Canadian GAAP, the Corporation capitalized overheads attributable to construction and development activities, including general and administrative overhead costs. Removal of general and administrative overhead costs from property, plant and equipment resulted in an increase in goods and services purchased of $8,673, and a decrease in other income due to the recognition of loss on disposal and retirement of assets in income of $2,597. The latter was previously recorded in accumulated depreciation under the group method. In addition, goods and services purchased have increased $1,638 due to the application of IFRS adjustments to operating rents.

4. The Corporation has chosen to charge all actuarial gains and losses to other comprehensive versus amortization of these gains and losses under Canadian GAAP, resulting in an increase in salaries, wages and benefits of $7,070.

5. Previously the Corporation had not capitalized borrowing costs. Under IFRS, the Corporation is required to capitalize borrowing costs on qualifying assets resulting in a decrease to net finance expense of $11,032.

6. Under IFRS, removal of general and administrative overheads, capitalization of borrowing costs, componentization and adoption of straight-line depreciation methodology has resulted in a decrease in depreciation and amortization expense by $2,269.

7. Under IFRS, the amortization of government funding is impacted by accounting for directly attributable costs and capitalized interest costs relating to the assets within the funded program. Other income increases $111 due to this change.

8. Under IFRS, the corporation elected to recognize current year actuarial losses related to the pension plan and other employee compensation programs in other comprehensive income resulting in a decrease to other comprehensive income of $43,021.

### Reconciliation of consolidated Statement of Financial Position at December 31, 2010

Thousands of dollars including notes

| | | | IFRS Adjustments | | |
|---|---|---|---|---|---|
| | Note | Canadian GAAP | Mandatory | Elective | IFRS |
| Assets | | | | | |
| Current assets | | $99,923 | $- | $- | $99,923 |
| Capital assets | 1,2,3,5,6 | 1,134,526 | (14,776) | 23,031 | 1,142,781 |
| Other assets | 4 | 192,940 | - | (132,693) | 60,247 |
| | | $1,427,389 | $(14,776) | $(109,662) | $1,302,951 |
| Liabilities and Province's equity | | | | | |
| Current liabilities | 4,8 | $217,620 | $- | $(13,344) | $204,276 |
| Long-term debt | | 359,548 | - | - | 359,548 |
| Other long-term liabilities | 4,7 | 203,872 | (111) | 125,891 | 329,652 |
| Province of Saskatchewan's equity | | 646,349 | (14,665) | (222,209) | 409,475 |
| | | $1,427,389 | $(14,776) | $(109,662) | $1,302,951 |

1. Under IFRS, only directly attributable costs are capitalized to an item of property plant and equipment. Under Canadian GAAP, the Corporation capitalized overheads attributable to construction and development activities, including general and administrative overhead costs. Removal of general and administrative overhead costs from property, plant and equipment resulted in a reduction of capital assets and retained earnings of $53,190.

2. Previously the Corporation had not capitalized borrowing costs. Under IFRS, the Corporation is required to capitalize borrowing costs on qualifying assets resulting in an increase to capital assets and retained earnings of $37,594.

3. The Corporation has elected to use fair value as deemed cost for certain items of property, plant and equipment. On transition, the Corporation increased the carrying amount of capital assets and retained earnings by $23,031.

4. The Corporation has elected to recognize actuarial gains and losses in retained earnings upon transition to IFRS. Other assets have decreased by $132,693, current liabilities have decreased by $14,982, other liabilities have increased by $125,891 and retained earnings has decreased by $243,602.

5. Under IFRS, most customer contributions received by the Corporation are required to be recorded as revenue. Under Canadian GAAP these contributions were applied to property, plant and equipment related to the service provision. The result is an increase to capital assets and retained earnings of $1,149.

6. Under IFRS, removal of general and administrative overheads, capitalization of borrowing costs, componentization and adoption of straight-line depreciation methodology has resulted in a decrease in capital assets and retained earnings of $329.

7. Under IFRS, the amortization of government funding is impacted by accounting for directly attributable costs and capitalized interest costs relating to the assets within the funded program. As a result, other long-term liabilities decrease $111 and retained earnings increase $111,

8. Application of IFRS policies related to overhead and interest capitalization has resulted in an increase to current liabilities of $1,638 and a decrease to retained earnings of $1,638, due to increased charges for operating rents.

### Key Performance Indicators

The indicators most impacted by the Corporation's adoption of IFRS are related to financial results and include revenue growth, net income, return on equity and the debt ratio.

Based on estimated results for the year ended December 31, 2010, the estimated annual impact on revenue is not expected to be material.

Net income will be impacted by:

- interest and overhead capitalization policies,
- accounting for actuarial gains and losses, and
- changes in depreciation methodologies and estimated useful lives of certain assets.

Based on results for the year ended December 31, 2010, the estimated annual impact on net income is approximately $5 million.

Return on equity and the debt ratio will be impacted by the equity adjustments at the date of transition to IFRS. Based on results to the year ended December 31, 2010, the estimated impact on the debt ratio is an increase of approximately eleven percentage points and the estimated impact on return on equity is an increase of approximately nine percentage points. The changes are due to the reduction of equity upon transition, equity adjustments related to operations and the impact of charges to other comprehensive income.

The IASB plans to make revisions to or replace existing IFRS standards that may impact these areas as well as other accounting issues. Some of the anticipated changes may be in effect prior to the Corporation's transition date, such that IFRS may differ at transition date from its current form. However, it is likely that the majority of the changes will be in effect subsequent to the date of transition; with the result that the impact to the corporation of adopting IFRS will extend beyond its transitional year.

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# INDEPENDENT AUDITORS' REPORT

To The Members of the Legislative Assembly, Province of Saskatchewan

We have audited the accompanying financial statements of Saskatchewan Telecommunications, which comprise the statement of financial position as at December 31, 2010, the statements of operations and comprehensive income, retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saskatchewan Telecommunications as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
March 2, 2011

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KPMG Canada provides services to KPMG LLP.

## Statement of Operations and Comprehensive Income

| For the year ended December 31,<br>Thousands of dollars | 2010 | 2009 |
|---|---|---|
| **Operating revenues** | **$1,043,675** | $1,053,491 |
| **Operating expenses** | | |
| Operations | **759,372** | 752,694 |
| Depreciation and amortization | **148,782** | 172,599 |
| Restructuring charges | **-** | 3,619 |
| | **908,154** | 928,912 |
| **Income from operations** | **135,521** | 124,579 |
| **Other items** (Note 4) | **9,851** | 7,402 |
| **Interest and related items** (Note 5) | **(16,783)** | (17,244) |
| **Income before the following** | **128,589** | 114,737 |
| **Loss on disposal of assets held for sale** | **-** | (9,002) |
| **Net income** | **128,589** | 105,735 |
| **Other comprehensive income** | **-** | - |
| **Comprehensive income** | **$128,589** | $105,735 |

*See Accompanying Notes*

## Statement of Retained Earnings

| For the year ended December 31,<br>Thousands of dollars | 2010 | 2009 |
|---|---|---|
| **Retained earnings, beginning of year** | **$265,771** | $228,763 |
| **Net income** | **128,589** | 105,735 |
| | **394,360** | 334,498 |
| **Dividends** | **83,583** | 68,727 |
| **Retained earnings, end of year** | **$310,777** | $265,771 |

*See Accompanying Notes*

## Saskatchewan Telecommunications

# Statement of Financial Position

| As at December 31, Thousands of dollars | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and short-term investments | **$3,398** | $- |
| Accounts receivable (Note 17a) | **82,993** | 87,766 |
| Inventories (Note 6) | **5,548** | 7,748 |
| Prepaid expenses (Note 17a) | **7,984** | 9,119 |
| Current portion of sinking funds (Note 10) | **-** | 7,013 |
| | **99,923** | 111,646 |
| **Property, plant and equipment** (Note 7) | **1,028,838** | 884,204 |
| **Intangible assets – finite-life** (Note 8) | **39,707** | 39,064 |
| **Intangible assets – indefinite-life** (Note 9) | **65,981** | 65,981 |
| **Sinking funds** (Note 10) | **52,618** | 47,224 |
| **Deferred pension costs** (Note 19) | **132,693** | 108,145 |
| **Other assets** (Note 11) | **7,629** | 8,193 |
| | **$1,427,389** | $1,264,457 |
| **Liabilities and Province's equity** | | |
| **Current liabilities** | | |
| Bank indebtedness | **$-** | $11,700 |
| Accounts payable and accrued liabilities (Note 17a) | **128,888** | 116,704 |
| Dividend payable | **35,914** | 19,586 |
| Services billed in advance (Note 17a) | **52,818** | 48,027 |
| Current portion of long-term debt (Note 14) | **-** | 60,073 |
| | **217,620** | 256,090 |
| **Deferred revenue** | **8,801** | 9,146 |
| **Notes payable** (Note 12) | **153,908** | 194,688 |
| **Deferred revenue – government funding** (Note 13) | **41,163** | 42,400 |
| **Long-term debt** (Note 14) | **359,548** | 160,790 |
| | **781,040** | 663,114 |
| **Province of Saskatchewan's equity** | | |
| Equity advances (Note 15) | **335,572** | 335,572 |
| Retained earnings | **310,777** | 265,771 |
| | **646,349** | 601,343 |
| | **$1,427,389** | $1,264,457 |

*See Accompanying Notes*

**On behalf of the Board:**

Grant Kook

Blair Davidson

## Saskatchewan Telecommunications

# Statement of Cash Flows

| **For the year ended December 31,**<br>Thousands of dollars | **2010** | 2009 |
|---|---|---|
| **Operating activities** | | |
| Net income | **$128,589** | $105,735 |
| Adjustments to reconcile net income to cash provided by operating activities | | |
| Depreciation and amortization | **148,782** | 172,599 |
| Pension income of defined benefit plans | **(8,099)** | (8,408) |
| Contributions to defined benefit pension plans | **(16,450)** | (8,252) |
| Amortization of government funding | **(2,558)** | (2,600) |
| Sinking fund earnings | **(3,677)** | (2,752) |
| Loss on disposal of assets held for sale | **-** | 9,002 |
| Other | **1,090** | (371) |
| Net change in non-cash working capital (Note 17b) | **26,037** | 7,277 |
| Cash provided by operating activities | **273,714** | 272,230 |
| **Investing activities** | | |
| Property, plant and equipment expenditures | **(282,181)** | (201,236) |
| Intangible assets – finite-life expenditures | **(13,491)** | (23,422) |
| Government funding | **1,321** | 45,000 |
| Cash used in investing activities | **(294,351)** | (179,658) |
| **Financing activities** | | |
| Proceeds from long-term debt | **198,670** | - |
| Repayment of long-term debt | **(60,000)** | (214) |
| Decrease in notes payable to Holdco | **(40,780)** | (22,315) |
| Dividends paid | **(67,255)** | (72,552) |
| Sinking fund redemption | **7,507** | - |
| Sinking fund installments | **(1,616)** | (2,216) |
| Financing leases | **(791)** | (284) |
| Capital lease obligations | **-** | (22) |
| Cash provided by (used in) financing activities | **35,735** | (97,603) |
| **Increase (decrease) in cash** | **15,098** | (5,031) |
| **Cash and cash equivalents, beginning of year** | **(11,700)** | (6,669) |
| **Cash and cash equivalents, end of year** | **$3,398** | $(11,700) |
| Comprised of: | | |
| Cash and short-term investments | **$3,398** | $- |
| Bank indebtedness | **-** | (11,700) |
| | **$3,398** | $(11,700) |

*See Accompanying Notes*

# Notes to Financial Statements

## Note 1 – The Corporation

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Act* and, as such, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Canadian Radio-television and Telecommunications Commission (CRTC) regulates the Corporation under the *Telecommunications Act* (Canada).

By virtue of *The Crown Corporations Act, 1993,* the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

## Note 2 – Summary of significant accounting policies

### Basis of preparation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP).

In March 2009, the Canadian Accounting Standards Board reconfirmed that Canadian GAAP for publicly accountable enterprises, including Government Business Enterprises (GBEs), will be replaced by International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, these financial statements will be the last prepared by the Corporation as a GBE under pre-conversion Canadian GAAP, and the conversion to IFRS will be applicable to the Corporation's reporting for 2011, for which current and comparative information will be prepared under IFRS. The Corporation will also present an opening IFRS statement of financial position as at January 1, 2010, the Corporation's date of transition, as part of the Corporation's 2011 annual financial statements.

### Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at fair value.

### Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

### Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services and direct labour.

# Notes to Financial Statements

*Note 2 – Summary of significant accounting policies, continued*

Depreciation and amortization on property, plant and equipment is computed on the straight-line basis, using rates determined by a continuing program of engineering studies for each class of property in service.

| Asset | Estimated useful life |
|---|---|
| Buildings | 25 - 35 years |
| Plant and equipment | 2 - 50 years |
| Office furniture, equipment and leaseholds | 3 - 17 years |

With respect to property, plant and equipment acquired and constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction and installation costs, including direct labour, as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

**Assets held for sale and discontinued operations**

Long lived assets are classified as held for sale when certain criteria are met, which include: the Corporation's commitment to a plan to sell the assets; the assets are available for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets have been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets are being actively marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets or that the plan will be withdrawn.

A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction represent a disposal group and are reflected as assets and liabilities held for sale.

The Corporation measures long-lived assets held for sale at the lower of carrying amount or fair value less cost to sell. These assets are not depreciated or amortized.

A component of the Corporation that is held for sale is reported as a discontinued operation if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of a disposal transaction and the Corporation will not have a significant continuing involvement in the operations of the component after the disposal transaction.

**Impairment of long-lived assets**

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

# Notes to Financial Statements

*Note 2 – Summary of significant accounting policies, continued*

**Asset retirement obligations**

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2010.

**Intangible assets – finite-life**

Finite-life intangible assets are recorded at cost of acquisition or development, including where applicable direct development costs, overhead costs directly attributable to development activity and betterment costs.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| Asset | Estimated useful life |
|---|---|
| Software | 1 - 5 years |

The Corporation annually reviews the amortization method and useful lives of finite-life intangible assets.

Intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

**Intangible assets – indefinite-life**

Intangible assets with an indefinite life are not subject to amortization; they are tested annually for impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

**Deferred revenue – government funding**

Government funding related to operating expenses is recognized in income when the related expenses are incurred. Government funding related to capital expenditures is deferred until the related assets are in service. The funding is amortized over the estimated useful life of the related assets, currently 11 years.

**Revenue recognition**

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications, data, internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Certain service connection charges and activation fees, along with corresponding direct costs are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the period service is provided. Revenues from equipment sales are recognized when the equipment is

## Notes to Financial Statements

*Note 2 – Summary of significant accounting policies, continued*

delivered to and accepted by the customer. Revenues for longer term contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

When the Corporation receives no identifiable, separable benefit for consideration given to a customer (e.g. discounts and rebates), the consideration is recorded as a reduction of revenue rather than as an expense.

The CRTC has established a National Subsidy Fund to subsidize Local Exchange Carriers (LECs), like the Corporation, that provide service to residential customers located in high cost service areas (HCSAs). The CRTC has set the rate per line and band for all LECs. The Corporation recognizes the revenue on an accrual basis by applying the rate to the number of residential network access lines served during the period in HCSAs.

**Employee future benefits**

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

***a) Defined benefit pension plan***

The Corporation accrues its obligations under the Saskatchewan Telecommunications Pension Plan and the related costs, net of plan assets. The Corporation has adopted the following policies related to the defined benefit plan:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Pension plan assets are valued at fair value, which is determined using current market values.

The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

Expected return on plan assets is calculated based on the expected rate of return on plan assets applied to a five year weighted average value of plan assets, adjusted for contributions and benefit payments made in the current year.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining life of retired members of the plan. The average remaining life of retired members was calculated as a weighted average of 22 years.

When the restructuring of a benefit plan results in a settlement and a curtailment of obligations, the curtailment is accounted for prior to the settlement.

## Notes to Financial Statements

*Note 2 – Summary of significant accounting policies, continued*

***b) Defined contribution pension plan***
Defined contribution plan costs are recognized as employees render services during the year.

***c) Service recognition defined benefit plan***
The Corporation provides a service recognition defined benefit plan for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates.

Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

**Financial instruments**

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to market risks from changing interest rates) and forward foreign exchange contracts (used to manage foreign currency exposures). The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

**Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of

# Notes to Financial Statements

*Note 2 – Summary of significant accounting policies, continued*

revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amount of intangible assets and underlying estimates of future cash flow, the carrying amounts of accounts receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

## Note 3 – Rate regulation

The Corporation's telecommunications and broadcast services are regulated by the CRTC. However, the CRTC only regulates rates for specific telecommunications services and only in locations where the Commission believes that the level of competition in that service is not high enough that market forces can be relied on to protect the interests of customers. For these 'non-forborne' services, the rate which the Corporation may charge must receive CRTC approval prior to being implemented and may not be set below the long run incremental cost of the service, calculated according to CRTC costing rules. The CRTC also regulates the rates for most services that are designed for use by competitors. The CRTC requires rates for many of these services to be based on long run incremental costs plus approved mark-ups.

In addition, the CRTC has implemented a price cap framework which: limits the Corporation's flexibility in the pricing of some rate regulated retail services; subjects certain competitor service rates to potential annual decreases; and prohibits the Corporation from increasing basic residential access rates in areas deemed to be Low Cost Serving Areas. The CRTC has established a subsidy mechanism aimed at keeping basic residential access affordable in areas deemed by the CRTC to be High Cost Serving Areas (HCSAs). In these areas the Corporation receives a subsidy from the National Contribution Fund equal to the difference between long-run incremental costs in these areas and the rates charged to subscribers. Therefore the revenue received by the Corporation in these areas is effectively the rate charged to subscribers plus the subsidy per line. The cost component of the subsidy calculation amount is adjusted annually based on assumed productivity gains less inflation. The rate component is also adjusted annually as the CRTC has given the Corporation the ability to make annual rate increases equal to the rate of inflation in HCSAs, however, even if the Corporation does not raise rates in these areas, the increase is assumed to have been applied and the subsidy per line is decreased.

In September of 2009, the CRTC issued *Notice of Consultation 2009-575 Call for comments – Identification, scope, and prioritization of issues regarding obligation to serve, basic service objective, and local service subsidy regime*. This consultation culminated in a public hearing in the fall of 2010. The CRTC decision, expected in the spring of 2011, could significantly impact future subsidy mechanisms.

Approximately 17% (2009 – 19%) of the Corporation's operating revenues are currently subject to CRTC rate regulation. Rate regulation does not result in the Corporation selecting accounting policies that would differ from GAAP.

# Notes to Financial Statements

## Note 4 – Other items

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Amortization of government funding | $2,558 | $2,600 |
| Provincial Sales Tax refunds | 2,686 | - |
| Interest income | 942 | 913 |
| Other | 3,665 | 3,889 |
| | $9,851 | $7,402 |

## Note 5 – Interest and related items

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Interest expense | $21,055 | $19,181 |
| Sinking fund earnings | (3,677) | (2,752) |
| Change in fair value of sinking funds | (595) | 815 |
| | $16,783 | $17,244 |

## Note 6 – Inventories

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Inventories for resale | $4,354 | $6,106 |
| Work in progress | 1,194 | 1,642 |
| | $5,548 | $7,748 |

During the year, $21,723,324 of inventories for resale (2009 - $23,204,729) were recognized as cost of goods sold. Inventory write-downs amounted to $3,741,012 (2009 - $532,435). There were no reversals of any prior period write-downs during 2010.

# Notes to Financial Statements

## Note 7 – Property, plant and equipment

| Thousands of dollars | Cost | Accumulated depreciation and amortization | Net book value 2010 | Net book value 2009 |
|---|---|---|---|---|
| Buildings | **$250,148** | **$111,258** | **$138,890** | $87,029 |
| Plant and equipment | **2,573,723** | **1,901,539** | **672,184** | 558,498 |
| Office furniture, equipment and leaseholds | **92,748** | **43,424** | **49,324** | 34,441 |
| Plant under construction | **135,114** | **-** | **135,114** | 177,833 |
| Materials and supplies | **27,760** | **-** | **27,760** | 21,481 |
| Land | **5,566** | **-** | **5,566** | 4,922 |
| | **$3,085,059** | **$2,056,221** | **$1,028,838** | $884,204 |

Depreciation and amortization for the year totaled $132,707,477 (2009 - $140,519,738).

## Note 8 – Intangible assets – finite-life

| Thousands of dollars | Cost | Accumulated amortization | Net book value 2010 | Net book value 2009 |
|---|---|---|---|---|
| Software | **$114,388** | **$74,681** | **$39,707** | $39,064 |

Amortization for the year totaled $16,074,325 (2009 - $32,005,571).

## Note 9 – Intangible assets - indefinite-life

Indefinite-life intangible assets consist of spectrum licenses in Saskatchewan in the amount of $65,980,507. The licenses have been determined to have an indefinite life and as such are not amortized.

## Note 10 - Sinking funds

Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Saskatchewan Ministry of Finance, amounts representing 1.0 percent to 2.0 percent of the debt outstanding. The fund includes the Corporation's required contributions, its proportional share of earnings and its proportional share of revaluation gains or losses.

## Notes to Financial Statements

*Note 10 - Sinking funds, continued*

The changes in the carrying amount of sinking funds are as follows:

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Sinking funds, beginning of year | $54,237 | $50,084 |
| Installments | 1,616 | 2,216 |
| Earnings | 3,677 | 2,752 |
| Redemptions | (7,507) | - |
| Valuation adjustments | 595 | (815) |
| Total sinking funds | 52,618 | 54,237 |
| Less current portion | - | 7,013 |
| | $52,618 | $47,224 |

As at December 31, 2010 scheduled sinking fund installments for the next five years are as follows:

| Thousands of dollars | |
|---|---|
| 2011 | $5,116 |
| 2012 | 5,116 |
| 2013 | 5,116 |
| 2014 | 5,116 |
| 2015 | 5,116 |

### Note 11 – Other assets

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Deferred service connection charges | $5,798 | $6,562 |
| Financing leases | 1,721 | 1,447 |
| Other | 110 | 184 |
| | $7,629 | $8,193 |

Amortization for the year totaled $74,022 (2009 - $74,022).

### Note 12 – Notes payable

The balance represents amounts due to Holdco which are unsecured and bear interest at the Holdco's borrowing rate of 1.03% (2009 – 0.28%), with no fixed repayment terms.

### Note 13– Deferred revenue – government funding

During 2009, the Corporation received $45,000,000 in funding from the Province of Saskatchewan, through CIC, as partial funding of the 2009 portion of the Rural Infrastructure Program (RIP). The funded expenditures have been completed and the funding has been applied as follows; $40,891,160 to capital expenditures and $4,108,840 to operating expenditures.

## Notes to Financial Statements

*Note 13 – Deferred revenue – government funding, continued*

In addition, as part of the transfer of the satellite distribution and communication assets of Saskatchewan Communications Network Corporation (SCN) to the Corporation, the Province of Saskatchewan through the Ministry of Education has provided $1,321,230 in funding for distance education hardware upgrades. To date $66,912 has been applied to capital expenditures.

Funding related to operating expenditures has been included in the determination of net income for the relevant period. Funding related to capital expenditures has been deferred and is being amortized over the estimated useful life of the related assets.

| | 2010 | | | 2009 |
|---|---|---|---|---|
| Thousands of dollars | RIP | SCN | Total | Total |
| Balance, beginning of year | $42,400 | $- | $42,400 | $- |
| Funding received | - | 1,321 | 1,321 | 45,000 |
| | 42,400 | 1,321 | 43,721 | 45,000 |
| Amortization | 2,557 | 1 | 2,558 | 2,600 |
| Balance, end of year | $39,843 | $1,320 | $41,163 | $42,400 |

## Note 14 – Long-term debt

| Thousands of dollars | Years to Maturity | Weighted Average Interest Rate (%) | 2010 | 2009 |
|---|---|---|---|---|
| **Province of Saskatchewan** | | | | |
| Canadian dollar issues | 1 - 5 | 5.96 | $- | $60,073 |
| Canadian dollar issues | 10 | 6.73 | 274,548 | 125,790 |
| Canadian dollar issues | 15 | 4.15 | 50,000 | - |
| Canadian dollar issues | 19 | 5.60 | 35,000 | 35,000 |
| Total long-term debt | | | 359,548 | 220,863 |
| Less current portion | | | - | 60,073 |
| | | | $359,548 | $160,790 |

As at December 31, 2010, the Corporation has no scheduled debt principal retirement requirements in the next five years.

## Note 15 – Equity advances and additional capital disclosures

### a) Equity advance

The Corporation's equity financing is in the form of equity advances of $250,000,000 (2009 - $250,000,000) from CIC and $85,572,000 (2009 - $85,572,000) from Holdco.

# Notes to Financial Statements

*Note 15 – Equity advances and additional capital disclosures, continued*

**b) Additional capital disclosures**

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

The capital structure is determined in conjunction with the shareholder based on the approved business plans.

The Corporation monitors capital on the basis of the debt ratio. The ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable and the current portion of long-term debt, less sinking funds, and cash and short-term investments. Capitalization includes net debt, equity advances and retained earnings at the period end.

The Corporation's strategy, which is unchanged from 2009, is to maintain a debt to equity ratio below 45%.

The debt ratio is as follows:

| Thousands of dollars | **2010** | 2009 |
|---|---|---|
| Total debt | **$513,456** | $415,551 |
| Less: Sinking funds | **52,618** | 54,237 |
| Cash and short-term investments | **3,398** | - |
| Net debt | **457,440** | 361,314 |
| Equity | **646,349** | 601,343 |
| Capitalization | **$1,103,789** | $962,657 |
| Debt ratio | **41.4%** | 37.5% |

The Corporation is not subject to any externally imposed capital requirements.

## Note 16 – Commitments and contingencies

**Commitments**

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

| Thousands of dollars | |
|---|---|
| 2011 | $87,411 |
| 2012 | 75,537 |
| 2013 | 61,092 |
| 2014 | 11,564 |
| 2015 | 10,380 |

The above payments include $13,525,297 for leases with related parties.

# Notes to Financial Statements

*Note 16 – Commitments and contingencies, continued*

**Contingencies**

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On September 17, 2007, the Saskatchewan court certified the Plaintiffs' proceeding as a class action with respect to an allegation of unjust enrichment only. The appeal from this decision by the Corporation, together with all other defendants was heard by the Court of Appeal on December 13 and 14, 2010 and a decision was reserved by the Court. The Corporation awaits receipt of the decision of the Court of Appeal. On July 24, 2009 a second proceeding under the *Class Actions Act* (Saskatchewan) was issued against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The Corporation believes this second action involves substantially the same allegations as the 2004 claim and on December 23, 2009 the second action was conditionally stayed as an abuse of process by the Court of Queen's Bench. The Plaintiffs have applied to obtain leave of the Court of Appeal to appeal the stay of the second action. The Plaintiff's application to obtain leave is adjourned indefinitely on the condition that it cannot be dealt with until after the Court of Appeal has issued its decision in the 2004 claim. The Corporation continues to believe that it has strong defenses to the allegations and that legal errors were made by the Court in the certification proceeding of the 2004 claim and that it has strong defenses to the allegations contained in the 2009 action.

On June 26th, 2008, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireline, wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireline and wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges paid for 9-1-1 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. Thus far the claim has simply been issued by the Plaintiffs. The Corporation is not aware whether all the named defendant carriers have been served with the claim yet. The Corporation believes that it has strong defenses to the allegations that are made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. On September 27, 2010 the Corporation was advised that a case management judge has been appointed in this matter. The Corporation is not aware that any other step or action has been taken in this action.

Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Corporation's financial position or results of operations could result.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2010 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

# Notes to Financial Statements

## Note 17 – Additional financial information

### a) Balance sheet

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Accounts receivable | | |
| Customer accounts receivable | $65,858 | $75,745 |
| Accrued receivables - customer | 3,965 | 4,004 |
| Allowance for doubtful accounts | (2,750) | (3,476) |
| | 67,073 | 76,273 |
| High cost serving area subsidy | 5,343 | 5,446 |
| Other | 10,577 | 6,047 |
| | $82,993 | $87,766 |
| Prepaid expenses | | |
| Prepaid expenses | $2,945 | $3,396 |
| Deferred service connection charges | 5,039 | 5,723 |
| | $7,984 | $9,119 |
| Accounts payable and accrued liabilities | | |
| Trade accounts payable and accrued liabilities | $74,664 | $63,018 |
| Payroll and other employee-related liabilities | 45,727 | 46,178 |
| Taxes payable | 5,194 | 5,072 |
| Interest payable | 3,153 | 2,316 |
| Other | 150 | 120 |
| | $128,888 | $116,704 |
| Services billed in advance | | |
| Advance billings | $41,341 | $35,990 |
| Deferred service connection charges | 6,355 | 7,116 |
| Customer deposits | 5,122 | 4,921 |
| | $52,818 | $48,027 |

### b) Supplementary cash flow information

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Net change in non-cash working capital | | |
| Accounts receivable | $5,270 | $5,131 |
| Inventories | 2,200 | 318 |
| Prepaid expenses | 1,135 | 586 |
| Accounts payable and accrued liabilities | 12,222 | 1,042 |
| Services billed in advance | 4,791 | 544 |
| Deferred revenues | 419 | (344) |
| | $26,037 | $7,277 |
| Interest paid | $19,004 | $18,411 |

# Notes to Financial Statements

## Note 18 – Financial instruments

The Corporation's financial instruments include cash and short-term investments, accounts receivable, sinking funds, accounts payable and accrued liabilities, dividend payable, notes payable and long-term debt, which by their nature are subject to risks.

### a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

| Thousands of dollars | | 2010 | | 2009 | |
|---|---|---|---|---|---|
| Financial Instruments | Classification[1] | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial assets** | | | | | |
| Cash and short-term investments | HFT | **$3,398** | **$3,398** | $- | $- |
| Accounts receivable | LAR | **82,993** | **82,993** | $87,766 | $87,766 |
| Sinking funds | HFT | **52,618** | **52,618** | 54,237 | 54,237 |
| **Financial liabilities** | | | | | |
| Bank indebtedness | OL | **-** | **-** | 11,700 | 11,700 |
| Accounts payable and accrued liabilities | OL | **128,888** | **128,888** | 116,704 | 116,704 |
| Dividend payable | OL | **35,914** | **35,914** | 19,586 | 19,586 |
| Notes payable | OL | **153,908** | **153,908** | 194,688 | 194,688 |
| Long-term debt | OL | **359,548** | **438,055** | 220,863 | 287,043 |

[1] Classification details are:
HFT – held-for-trading LAR – loans and receivables OL – other liabilities

Determination of fair value

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, dividend payable and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgement and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

# Notes to Financial Statements

*Note 18 – Financial instruments, continued*

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

| | | 2010 | | | 2009 | |
|---|---|---|---|---|---|---|
| Thousands of dollars | **Level 1** | **Level 2** | **Total** | Level 1 | Level 2 | Total |
| Sinking funds | **-** | **$52,618** | **$52,618** | - | $54,237 | $54,237 |
| Long-term debt | **-** | **$438,055** | **$438,055** | - | $287,317 | $287,317 |

**b) Currency risk**

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign suppliers, foreign currency denominated revenues and short-term foreign commitments. Assuming all other variables remained constant at December 31, 2010, currency fluctuations in excess of 10% would have a material impact on net income. Specifically, a 10% weakening in the Canadian dollar versus US dollar exchange rate would have a 4.4% unfavourable effect on net income while a 10% strengthening would have a 4.4% favourable effect on net income. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments.

**c) Interest rate risk**

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments, sinking funds, short-term obligations and long-term debt. The most significant of these is interest rate risk related to issuance of long-term debt. However, assuming all other variables remained constant at December 31, 2010, a 15% (71 basis point) increase or decrease in interest rates would not have a material impact on net income.

Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Corporation using derivative financial instruments when deemed appropriate.

The average effective interest rate on the Corporation's long-term debt was 6.30% (2009 - 8.24%) while the average actual interest rate on long-term debt was 6.26% (2009 - 8.31%).

**d) Market risk**

The Corporation is exposed to market risk primarily through the sinking funds. Fair value adjustments will fluctuate based on changes in market prices. The sinking funds consist of mostly Provincial government and Federal government bonds with varying maturities to coincide with related debt maturities, and are managed based on this maturity profile and market conditions. Fair value adjustments similar to those experienced up to December 31, 2010 would not have a material impact on net income.

**e) Credit risk**

The Corporation is exposed to credit risk through its cash and short-term investments, accounts receivable and sinking fund assets. Credit risk related to sinking fund assets is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is

## Notes to Financial Statements

*Note 18 – Financial instruments, continued*

minimized because of the large and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary.

The carrying amount of financial assets represents the maximum credit exposure as follows:

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Cash and short-term investments | **$3,398** | $- |
| Accounts receivable | **82,993** | 87,766 |
| Sinking funds | **52,618** | 54,237 |
| | **$139,009** | $142,003 |

The aging of customer receivables, which indicates potential impairment losses, is as follows:

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Current | **$50,239** | $56,099 |
| 30-60 days past billing date | **12,878** | 12,596 |
| 61-90 days past billing date | **2,221** | 4,287 |
| Greater than 90 days past billing date | **520** | 2,763 |
| Total | **$65,858** | $75,745 |

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Allowance for doubtful accounts, opening balance | **$3,476** | $9,025 |
| Transfer from held for sale | **-** | 2,966 |
| Accounts written off | **(11,117)** | (13,075) |
| Recoveries | **2,882** | 4,118 |
| Provision for losses | **7,509** | 442 |
| Allowance for doubtful accounts, closing balance | **$2,750** | $3,476 |

### f) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

**December 31, 2010**

| Thousands of dollars | Carrying Amount | Contractual cash flows | 6 mths or less | 7-12 mths | 2 years | 3-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Long-term debt | $359,548 | $615,098 | $11,323 | $11,323 | $22,647 | $67,939 | $501,866 |
| Notes payable | 153,908 | 157,079 | 793 | 793 | 155,493 | - | - |
| Dividend payable | 35,914 | 35,914 | 35,914 | - | - | - | - |
| Accounts payable and accrued liabilities | 128,888 | 128,888 | 128,888 | - | - | - | - |
| | $678,258 | $936,979 | $176,918 | $12,116 | $178,140 | $67,939 | $501,866 |

# Notes to Financial Statements

*Note 18 – Financial instruments, continued*

**December 31, 2009**

| Thousands of dollars | Carrying Amount | Contractual cash flows | 6 mths or less | 7-12 mths | 2 years | 3-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Long-term debt | $220,863 | $403,885 | $9,206 | $69,206 | $14,721 | $44,164 | $266,588 |
| Notes payable | 194,688 | 195,779 | 273 | 273 | 195,233 | - | - |
| Dividend payable | 19,586 | 19,586 | 19,586 | - | - | - | - |
| Accounts payable and accrued liabilities | 116,704 | 116,704 | 116,704 | - | - | - | - |
| | $551,841 | $735,954 | $145,769 | $69,479 | $209,954 | $44,164 | $266,588 |

Sufficient operating cash flows are expected to be generated to fund these short-term contractual obligations and the Corporation anticipates it will be able to refinance long-term debt upon maturity.

## Note 19 – Employee future benefits

The Corporation has a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

***a) Defined benefit pension plan***

The defined benefit pension plan is governed by the Corporation which has been closed to new membership since 1977. The defined benefit pension plan is registered under *The Pension and Benefit Act, 1992*, Saskatchewan, the *Income Tax Act*, Canada and is regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every 3 years in accordance with *The Pension and Benefit Act, 1992*, Saskatchewan, to determine the actuarial present value of the accrued pension benefit. An actuarial valuation for accounting purposes was performed at November 30, 2009. The latest valuation for funding purposes was performed as of December 31, 2007.

The defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met. For employees that retire before the age of 65 but meet other age plus service requirement either a reduced or unreduced pension may be payable. Pensions are subject to annual indexing with the Consumer Price Index (CPI) up to a maximum of 2% per year.

Key assumptions used as inputs to the actuarial calculations are:

| | **2010** | 2009 |
|---|---|---|
| Discount rate | **5.25%** | 6.00% |
| Expected return on plan assets | **6.75%** | 6.75% |
| Inflation rate | **2.50%** | 2.50% |
| Expected salary increase | **3.00%** | 3.00% |
| Post-retirement index (not to exceed 2%) | **100% of CPI** | 100% of CPI |

# Notes to Financial Statements

*Note 19 – Employee future benefits, continued*

The table below shows the allocation of pension plan assets:

| Asset category | 2010 | 2009 |
|---|---|---|
| Equity securities | **57.8%** | 58.1% |
| Bonds | **25.0%** | 26.0% |
| Short-term investments (treasury bills, notes and commercial paper) | **8.0%** | 6.9% |
| Real estate | **9.2%** | 9.0% |
| | **100.0%** | 100.0% |

The table below shows the components of the defined pension plan cost:

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Current service cost – defined benefit plan | **$1,332** | $1,261 |
| Interest cost | **56,731** | 59,670 |
| Expected return on pension plan assets | **(66,162)** | (66,551) |
| Amortization of net transitional asset | **-** | (3,845) |
| Amortization of past service costs | **-** | 1,057 |
| Net pension income | **$(8,099)** | $(8,408) |

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31.

Accrued benefit obligation

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Accrued benefit obligation, beginning of year | **$976,755** | $826,771 |
| Current service cost | **1,693** | 1,789 |
| Curtailment gain | **-** | (239) |
| Interest cost | **56,731** | 59,669 |
| Benefits paid | **(65,849)** | (65,427) |
| Impact due to change in assumptions | **81,374** | 154,192 |
| Accrued benefit obligation, end of year | **$1,050,704** | $976,755 |

Plan assets

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Fair value of plan assets, beginning of year | **$896,306** | $844,548 |
| Actual return on plan assets | **98,401** | 108,405 |
| Employer contributions | **16,450** | 8,252 |
| Employee contributions | **360** | 528 |
| Benefits paid | **(65,849)** | (65,427) |
| Fair value of plan assets, end of year | **$945,668** | $896,306 |

# Notes to Financial Statements

*Note 19 – Employee future benefits, continued*

Deferred pension costs

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Funded status deficit | **$(105,036)** | $(80,449) |
| Unamortized net actuarial losses | **237,729** | 188,594 |
| Deferred pension costs | **$132,693** | $108,145 |

***b) Defined contribution pension plan***

The defined contribution pension plan requires the Corporation to contribute 7% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2010 pension cost and employer contributions for the Public Employees Pension Plan are $17,883,353 (2009 - $17,442,870).

***c) Service recognition defined benefit plan***

The service recognition defined benefit program provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between the Corporation and the Communications, Electrical and Paperworkers Union of Canada, ratified April 22, 2006, the service recognition defined benefit program was curtailed effective March 19, 2005.

Employees will no longer earn two days pay per year of service, however will continue to earn incremental pay increases for the earned service at March 19, 2005 until retirement. Key assumptions used as inputs to the actuarial calculations are:

| | 2010 | 2009 |
|---|---|---|
| Discount rate | **5.40%** | 5.40% |
| Expected salary increase | **3.00%** | 3.00% |
| Estimated average remaining employee service life | **11.8 years** | 14.1 years |

Accrued benefit obligation

| Thousands of dollars | 2010 | 2009 |
|---|---|---|
| Accrued benefit liability, beginning of year | **$15,187** | $16,257 |
| Defined benefit service cost | **1,050** | 1,175 |
| Benefit payments | **(1,254)** | (2,245) |
| Accrued benefit liability, end of year | **$14,983** | $15,187 |

## Note 20 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

# Notes to Financial Statements

*Note 20 – Related party transactions, continued*

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

| Thousands of dollars | **2010** | 2009 |
|---|---|---|
| Operating revenues | **$75,750** | $74,905 |
| Operating expenses | **85,552** | 81,667 |
| Other items | **1,174** | 94 |
| Accounts receivable | **6,765** | 15,576 |
| Property, plant and equipment expenditures | **3,539** | 2,920 |
| Accounts payable and accrued liabilities | **11,074** | 9,224 |

The Corporation participates in customer solutions which may involve delivery of the Corporation's services in conjunction with those of related parties. Participation in these customer solutions is done at no cost to the Corporation as agreed to by the related parties.

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Ministry of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

A director of the Corporation has an indirect minor interest in a related party from which the Corporation recorded operating revenues of $186,091 (2009 - $213,762), operating expenses of $23,913,557 (2009 - $25,882,845) for services rendered to the Corporation, accounts receivable of $22,449 (2009 - $14,517) and accounts payable and accrued liabilities of $2,008,388 - (2009 - $1,737,117).

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

## Note 21 – Comparative figures

Certain of the 2009 figures have been reclassified to conform to the current year's presentation.